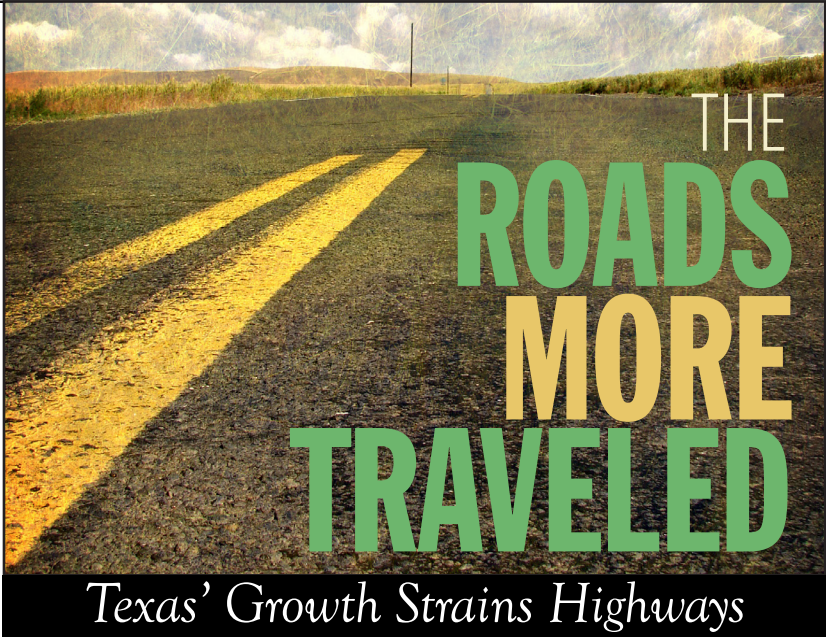




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FISCALNOTES

A Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts



BY PATRICK GRAVES

Transportation in Texas is at, well... a crossroads. Many state highways are overused and in need of repair.

As a national bellwether, Texas is a microcosm of America’s mounting infrastructure woes. Policymakers in both Austin and Washington D.C. are grappling with highway funding as they struggle to keep traffic rolling, especially in densely populated, fast-growth areas.





Several recent developments have brought the dilemma into sharper focus. In January 2014, for instance, the American Society of Civil Engineers gave Texas roads a “D,” the same grade it gave the U.S. as a whole.

And Texas’ economic boom has only worsened the situation facing drivers. In June, the GPS-based TomTom Traffic Index listed four Texas metro areas — Houston, Austin, Dallas-Fort Worth and San Antonio — among the 50 most congested cities in the Western Hemisphere.

The 2013 legislative session took steps to boost support for our road system. This fall, Texans will vote on Proposition 1, which would shift some of the tax revenue generated by the oil and gas boom to help pay for more and better roads and highways.

Prop 1 is the latest chapter in what’s become a perennial issue in Texas: where to find enough sustainable revenue to keep

LANE-MILES BY TYPE OF HIGHWAY SYSTEM*

	CLASSIFICATION	NUMBER OF LANE-MILES	PERCENTAGE OF TOTAL LANE-MILES
	Interstate Highway	15,519	8%
	U.S. Highway	36,049	18%
	State Highway	42,638	22%
	Farm-to-Market Road	84,855	44%
	Other	15,961	8%
	TOTAL LANE-MILES	195,022	100%

Roads under Texas Department of Transportation management.
* One lane-mile is a section of pavement one lane wide and one mile long.
SOURCE: 2030 Commission Texas Transportation Needs Report, 2009

pace with the burgeoning surface transportation needs of a growing population and an expanding economy.

The Costs of Congestion

So how do you define traffic congestion? It's "people with the economic means to act on their social and economic interests getting in the way of other people with the means to act on theirs," says transportation analyst and consultant Alan Pisarski.

And losses from that conflict can include not just delays and inconvenience but reductions in the availability of jobs, homes, workers, suppliers, customers and reliable shipping.

Texas highways are falling victim to the state's economic success, with commuters and haulers spending more and more time fighting traffic on roadways of declining quality.

In its most recent Urban Mobility Report, the Texas A&M Transportation Institute (TTI) estimates that in 2011, traffic congestion cost Texas motorists:

- 472 million extra hours of travel time;
- \$10.1 billion in total delay and fuel costs; and
- \$2.1 billion in truck freight moving cost (excluding delayed shipments).

According to a July 2014 report by transportation research group TRIP, drivers in the state's four most populous metropolitan areas (Houston, Dallas-Fort Worth, San Antonio and Austin) each waste an average of 45 hours a year in traffic delays. The TRIP report also attributes more than \$25 billion a year in added costs, including accidents and repairs, to deficient Texas roadways and bridges.

And the Texas Department of Transportation (TxDOT) reports that in 2014, Houston had the dubious distinction of the state's most congested roadway — a segment of IH 610 responsible for nearly 1.2 million hours of driver delays per mile, and nearly \$7.5 million in annual costs due to lost time and wasted fuel. (Harris County had 11 other of the 25 most congested roadways, with the remainder divided between Dallas, Tarrant and Travis counties.)

Texas Projections

Unfortunately, the road ahead doesn't show any sign of improvement. TTI, in analyzing the Capital Area Metropolitan Planning Organization's 2010 traffic improvement plan, determined that commute times from downtown Austin to next-door neighbor Round Rock could balloon to two to three hours by 2035, planned improvements notwithstanding.

Just how daunting TxDOT's task may become was illustrated in 2011, when a statewide task force of business leaders and policymakers met to forecast alternative service levels and costs through 2035.

HIGHWAYS BY THE NUMBERS

- If Texas' growth continues at the same pace it did in the previous decade, the **state's population could more than double by 2050**, rising by 120 percent.

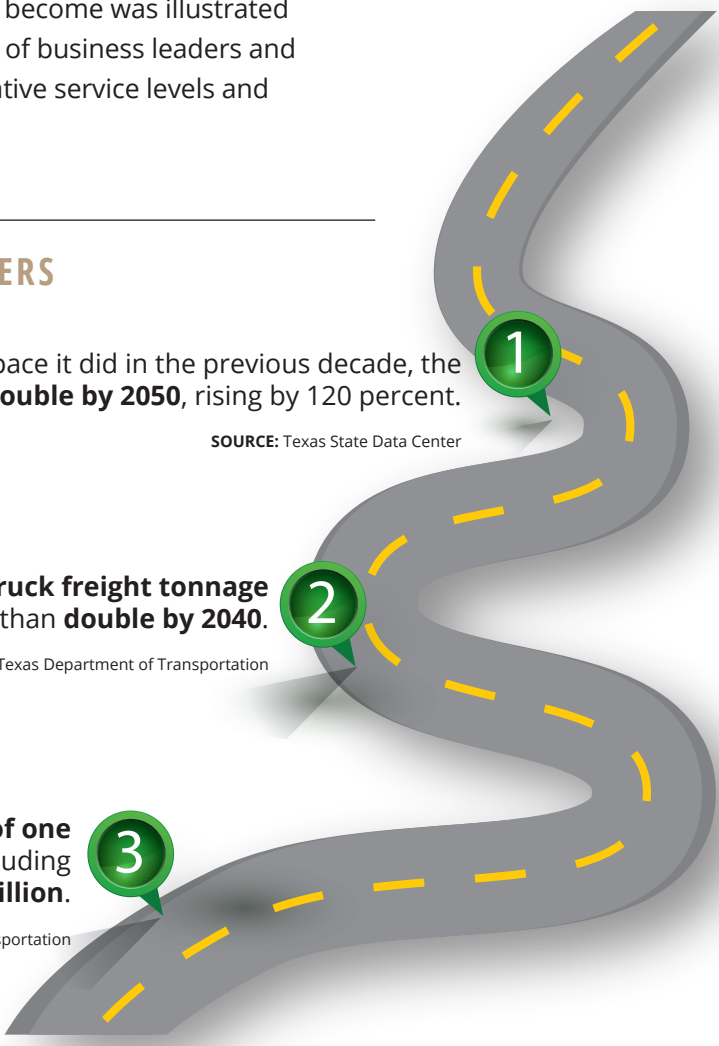
SOURCE: Texas State Data Center

- Texas' **annual truck freight tonnage** is expected to more than **double by 2040**.

SOURCE: Texas Department of Transportation

- Current **average cost to build one mile of one lane** of a two-lane, farm-to-market roadway (including right-of-way acquisition): **about \$1.5 million**.

SOURCE: Texas Department of Transportation



PAYING FOR PAVEMENT

In the 2014-15 biennium, federal funds will account for about 39 percent of the Texas Department of Transportation's budget.

FUNDING SOURCE	AMOUNT (MILLIONS)	SHARE OF TOTAL
Dedicated state funding, State Highway Fund*	\$9,034.4	41%
Federal funds	\$8,550.0	39%
Bond proceeds	\$3,423.9	15%
Texas Mobility Fund**	\$689.3	3%
State general revenue	\$379.7	2%

** A revolving bond fund within the Treasury that services bond issues and pays out bond proceeds.

SOURCE: Legislative Budget Board, Texas Department of Transportation

That's another \$6.8 billion per year on top of about \$11 billion TxDOT receives annually. Currently, TxDOT is seeking another \$3 billion annually for congestion relief.

Texas has the most extensive highway network of any state, and it has long been regarded as among the nation's best.

TxDOT officials say they need an additional \$1 billion per year just for road maintenance and repair.

Ever-increasing demand, however, began exceeding the capacity of these revenue sources, prompting the 2001 Legislature to authorize the state's first-ever bond funding for highway construction, initially from a \$6 billion Texas Mobility Fund.

Eroded Funding

For years now, spending needs have outpaced the revenue generated by motor fuels taxes, the largest source of both state and federal highway funding. In Texas, the combined tax rate on gasoline is 38.4 cents a gallon — 20 cents to the state and 18.4 cents to the federal government.



Because the gasoline tax is based on volume and not price, its effectiveness has been diminished due to ever-greater fuel efficiency and changing driving habits.

Furthermore, neither the state nor federal gasoline tax rates have risen in more than 20 years. According to Michael Morris, transportation director of the North Central Texas Council of Governments, inflation has reduced the taxes' purchasing power by 65 percent in that time.

Texas Department of Transportation officials have said they have no plans to convert "free" roads to toll roads but will continue tolling added capacity.

Scarce Federal Funds

Consequently, the federal Highway Trust Fund, which supplies most federal highway funding, has been taking in less money than states are requesting for years now. In recent budget cycles, Congress has transferred general revenue into the fund to make up for the shortfall.

This summer, the trust fund was nearly exhausted. On July 1, Transportation Secretary Anthony Foxx announced that the Federal Highway Administration would start rationing states' fund allocations as of Aug. 1. This rationing could have cost Texas some \$125 million a month.

The proposal was shelved, however, when Congress cobbled together various temporary fixes to come up with the \$10.9 billion needed to maintain current national funding levels through May 2015.

"Since 1990 or so we have had a national program in which the federal government has been an unreliable partner — often with continuing resolution after continuing resolution putting off addressing the problem while states waited," Pisarski says. "We again see another stopgap response from Congress, and I would hope [we will see] a more serious piece of long-term legislation with a new Congress."

Decisions and Diversions

Some believe that Texas is rapidly approaching the outer limits of conventional roadway construction and expansion. Unsurprisingly, this sentiment is common among advocates of alternative transportation modes such as ride sharing, public transit and light rail. Dallas has had the latter for decades, and an urban rail expansion plan is part of a \$1 billion city bond proposal coming before Austin voters this fall.

Another big issue in the highway finance conundrum concerns "diversions," the use of transportation-related revenue for unrelated purposes. A small amount of Texas' motor fuels tax revenue subsidizes county roads and bridges,

but a fourth goes to public education.

Furthermore, the State Highway Fund isn't used solely for road projects. At roughly \$9 billion, the fund comprises about 41 percent of TxDOT's current biennial appropriations, but not all of it goes to the agency.

In the 2014-15 biennium, for instance, the Texas Department of Public Safety is receiving more than \$812 million from the fund, according to the Legislative Budget Board, and three other non-transportation agencies are sharing more than \$28 million.

Next Big Things

The persistent shortage of highway funding has produced innovative operating arrangements, such as a forthcoming \$834 million public-private partnership for work on SH 183 in Dallas, as well as creative financing tools, including tolling on new managed lanes and extensions of existing roadways.

TxDOT also may consider creating truck-only lanes along interstates to improve highway mobility.

Yet another novel idea undergoing discussion nationally is to tax vehicles based on miles traveled rather than gasoline purchased. This idea, however, would require government tracking of vehicle usage via GPS or other technology, which could prove controversial.

The White House has said it wants to make it easier to toll existing interstate lanes. TxDOT officials have said they have no plans to convert "free" roads to toll roads but will continue to toll added capacity.

Prop 1

The latest approach to financing Texas highways has been made possible by the energy renaissance. The 2013 Legislature passed a constitutional amendment that, if approved by voters in November 2014, would add an additional funding stream for road and highway work.

Proposition 1 would tap some of the money channeled annually into the state's Economic Stabilization Fund (ESF), commonly called the "Rainy Day Fund." At present, the ESF receives 75 percent of the amount of state tax revenue from oil and gas production that exceeds the amount collected in fiscal 1987, the year in which the fund was created. Prop 1 would redirect half of this amount for highways, with a "sunset" provision at the end of fiscal 2025.

The Comptroller's office recently estimated this 50/50 split would yield an additional \$1.7 billion for the State Highway Fund in fiscal 2015 alone. The money would be used for non-toll highway acquisition, construction and maintenance.

TxDOT's appropriations for the current (2014-15) biennium total \$22.1 billion, up by approximately \$3.2 billion, or 17.2 percent, from 2012-13. The increase includes almost \$900 million contingent on passage of the constitutional amendment. TxDOT officials point out, however, that, even if Prop 1 passes, it would cover only about a fourth of Texas' annual highway funding needs.

To learn more about road congestion, read the Texas A&M Transportation Institute's most recent [Urban Mobility Report](#). Read about Texas' [Rainy Day Fund](#).